

**Investment Policy of the
City of Falls Church Post Retirement Medical Benefits Defined Benefit Plan
(City of Falls Church PRMDB Plan)
Res. 2020-45 (TR20-47) Retirement Board Sept & Nov 2020; Council December 2020;
February 2022**

1.0 Policy

It is the policy of the City of Falls Church PRMDB Plan's Retirement Board to invest the assets of the fund in a manner which will meet the Plan's objectives and conform to all applicable federal, state, and local laws.

2.0 Scope

This investment policy applies to all the financial assets of the Plan.

3.0 Objectives

3.1 Funding

The primary objective of the City of Falls Church PRMDB Plan's Retirement Board is to achieve and maintain a funding level over time equal to at least 100% of the future liabilities with a stable City required contribution rate. To obtain these objectives, the Board will diversify Plan assets and adopt a moderately aggressive investment posture relative to similar plans.

The City's (general government, schools and criminal justice academy) contribution in each fiscal year will be no less than 100% of the annual actuarially determined contribution (ADC) for that fiscal year as determined by the plan's actuary, based upon actuarially sound methods and assumptions. In addition, except as noted below, the contributions in each fiscal year will be no less than 75% of the plans' actuarially determined normal cost (Minimum Contribution Override), determined based upon actuarially sound methods and assumptions. The City may disregard the Minimum Contribution Override (but not the ADC requirements) only if the Plan's actuary certifies that the plan is more than 150% funded at the beginning of the fiscal year, based upon the actual market value of assets in the plan on the first day of the fiscal year.

The actuarial assumptions and methods will be established in consultation with relevant experts to include, but not intended to be an exclusive list: actuary, investment/ financial consultant and legal counsel.

3.2 Return

The Plan's asset allocation shall be designed with the objective of generating a return that exceeds the annual rate of inflation by at least 4% through economic cycles,

commensurate with legal constraints, investment risk constraints, and cash flow characteristics of the portfolio.

3.3 Safety

The Board's goal is to diversify assets among asset classes to provide for the opportunity to optimize the risk/reward characteristics and to have above average returns for the risks that are taken.

3.4 Liquidity

The City of Falls Church PRMDB Plan's investment portfolio, in combination with the projected net cash flows of the Plan, will provide sufficient liquidity to enable the Plan to meet all operating requirements which may be reasonably anticipated.

4.0 Authority and Fiduciary Responsibility of the Board

4.1 Legal Authority

The authority and responsibility for the administration, management, and operation of the Plan is vested in the Board as described in the City Ordinance # 1903.

4.2 Prudence

Board members have a fiduciary duty to the Plan and the participants and beneficiaries, which requires integrity and competence. Integrity requires management of the Plan and the assets for the exclusive benefit of the Plan's participants and beneficiaries, and disclosure as outlined in Section 4.3 (below). The required level of competence is that of a prudent person. This standard of competence extends to the retention and supervision of expert investment advice and all other areas of Plan's management. If Board members have special skills or expertise, they are under a duty to use them.

4.3 Ethics and Conflicts of Interest

Board members, staff, investment managers, and consultants shall refrain from engaging in any activity that impairs (or has the potential to impair) their ability to make impartial investment decisions for the Plan. Persons who nevertheless engage in such conduct immediately shall disclose the conduct to the Board. Board members, staff, investment managers, and advisers shall also immediately disclose to the Board any activity engaged in by their respective firms, employers, employees, and agents which conflicts (or has the potential to conflict) with the execution of the Board's investment program for the Plan.

Board members shall be in compliance with the City of Falls Church Retirement Board Ethics Policy that was adopted on August 19, 2010, modified on February 12, 2015 and affirmed on August 17, 2017, February 21, 2019 and February 20, 2020.

5.0 Investment Structure, Responsibilities, and Administration

5.1 Investment Responsibilities

The Board shall review the purchase and sale of the Plan's investments, the hiring and firing of outside professionals to assist the Board in fulfilling its obligations to the Plan, the development of investment strategies, and the development of investment policies, guidelines, and procedures for all aspects of the Plan, including the external investment managers. Only the Board shall have the authority to make decisions regarding those issues and to oversee the investment program for the Plan.

In the event there are monies of the Plan that have not been allocated to professional investment managers, then the Board will be responsible for reviewing and making allocation regarding such monies.

5.2 Investment Consultant

The Board will engage the services of a professional investment consultant to assist the Board in investment related matters, including evaluating and retaining a master custodian, investment managers, and other professionals.

5.3 Custodian

The Board shall retain a custodian to hold the Plan's securities, settle transactions and be the official record keeper for all practical investments and transactions of the Plan. The custodian shall register all securities in its nominee name and provide the Board with satisfactory evidence that the securities are owned by the Plan.

5.4 Investment Managers

The Board will retain experience professional investment managers to directly manage monies of the Plan, and carry out the asset allocation decisions of the Board.

5.5 Investment Transaction Monitoring

The Administrator will monitor monthly all transactions reported by the custodian and those reported by the investment managers.

5.6 Administration

All agreements for services provided to the Plan by the investment consultant, the custodian, the investment managers, and any other professionals shall be evidenced by a written contract between such professional and the Board. Such contracts shall be approved as to form by the City Attorney or outside Legal Counsel and include all

significant operational and performance requirements related to the services that are to be provided.

5.7 Plan Administration Expenses

Any expenses paid from the Trust to reimburse the City for plan administration, performed by City Staff, shall be reviewed annually. Any revisions shall be adopted by the Retirement Board.

6.0 Authorized Investments

The assets of the Plan may only be invested in the investments described under City Resolution # 2008 - 35 and updated under City Resolution # 2019-34 (TR19-35) as adopted on October 28, 2019.

The Board may adopt and maintain specific investment guidelines which further define the nature and scope of investments which are permissible for the total Plan and each investment manager.

7.0 Uninvested Cash and Collateralization

If at any time the Plan shall hold uninvested cash, it shall be invested in money market funds designated by the Board from time to time for this purpose. If contrary to the foregoing policy, any monies of the Plan shall be deposited in such accounts, savings accounts, certificates of deposits or other deposits of a bank or other permissible financial institution, such accounts shall be collateralized consistent with the City Charter, State requirements, and City policy requiring collateralization of all deposit liability owed to the City.

8.0 Asset Allocation

Each asset class, such as stocks and bonds, will be broadly diversified. The market for domestic stocks shall be represented by the CRSP (University of Chicago Center for Research in Security Prices) Large, Mid, and Small Cap Indices and for international stocks by the FTSE (Financial Times/London Stock Exchange) Developed and Emerging Markets Indices, and the market for bonds shall be represented by the Barclay's Intermediate Aggregate Bond Index and US 1-5 Year Credit Index.

Short term fixed income investments, defined as fixed income issues maturing in less than one year, will be managed to add value.

Given the current market value of the Plan, passive index funds will be utilized as the primary investment vehicles for domestic and international equities and for domestic bonds.

	Minimum (%)	Target (%)	Maximum (%)
Domestic Equity	496	56	636
Large Cap Index Fund	35	40	45
Mid Cap Index Fund	5	8	11
Small Cap Index Fund	5	8	11
International Equity	15	19	23
Developed Markets Index Fund	10	15	20
Emerging Markets Index Fund	2	4	6
Domestic Fixed	18	22	26
Intermediate Bond Index	18	22	26
Cash Equivalents	0	3	6
Cash Equivalents - Money Market Account	0	3	6

9.0 Maturities

No restrictions will exist for maturities of fixed income securities. Fixed income investment managers will manage their respective funds with characteristics as defined within their investment guidelines.

10.0 Internal Controls

The Board will establish, maintain, and review prudent internal controls for the assets of the Plan, including those utilized by staff, investment managers, and the Plan's master custodian.

The City Auditor will annually review the adequacy and compliance of these control procedures and report their findings to the Board.

11.0 Performance Standards

All active investment managers are expected to perform in the top half of managers with a similar orientation/style over time, while passive managers should closely track the target index fund.

12.0 Reporting

12.1 Legal Requirement

All reporting and legal requirements noted in City, State or Federal law will be complied with.

12.2 Investment Consultant

The Board will have the Plan's investment consultant present to the Board a review of each investment manager's performance on a quarterly basis. This presentation will focus on how the current asset allocation mix and the investment managers accomplish their objectives, and will include an analysis of the Plan's total performance as compared to other plans and plans of similar asset allocation. In addition, the presentation will evaluate each investment manager's performance relative to managers with similar styles.

12.3 Investment Managers

At least annually, the Board will require each separately managed active Investment Manager to provide a report discussing its performance to the Board. The report shall describe whether and how each manager accomplished its objectives as defined in the applicable investment guidelines delivered to the Board.

In addition, on at least an annual basis, each separately managed active equity Investment Manager will be required to deliver to the Board a report on their voting of all proxies. Each separately managed active Investment Manager will also provide the Board with a written report on their use of brokerage commissions.

12.4 Custodian

On a monthly basis, the Plan's custodian will provide to the Board, the Plan's investment consultant, and investment managers a complete account of all investment and cash related activity of the Plan, by manager, and for the Plan's assets under their supervision. This reporting will include a market valuation of assets which will be used as a basis for evaluating performance.

12.5 Actuarial Review

At least every two years the Board will obtain an actuarial valuation of the Plan which will include, per the Actuarial Standards of Practice, a description of the assumptions and methods as well as the rationale for each significant assumption.

The demographic assumptions will be based on a regular Experience Study commissioned by the Retirement Board, as well as the professional judgment of the Plan's Actuary. In consultation with the Plan's actuary, the Experience Study will be completed every three to eight years. Based on the Experience Study results and recommendations of the Plan's Actuary, the Retirement Board shall adopt revisions to the demographic assumptions.

The economic assumptions shall be reviewed annually with the input of the Plan's Actuary and the Investment Consultant, Based upon their input, the Retirement Board shall adopt revisions to the economic assumptions.

13.0 Adoption, Review & Modification

The Plan's investment policy shall be adopted by Board action. The policy shall be reviewed annually with the assistance of the Plan's investment consultant, and upon the occurrence of one of the following events:

- Change in investment manger
- Change in investment consultant
- A significant change in asset allocation
- Occurrence of significant and/or material market event.

All modifications will be approved by the Board.